

## Memo

To: Federal Reserve Board  
From: Sean Coffey  
Date: May 7, 2008  
Re: Proposed Rule to Amend Home Mortgage Provisions of Regulation Z

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I am a graduate student who has just completed my master's thesis on a loan servicing law passed by the North Carolina legislature in August of 2007. I am writing to share my perspective with the Federal Reserve Board as they contemplate improving and updating Regulation Z. An electronic copy of North Carolina's new loan servicing law is available at: <http://www.ncga.state.nc.us/sessions/2007/bills/house/html/h1374v7.html>

Based off my research, I have several suggestions for the Federal Reserve Board:

**1. Fees charged by servicers:** Banning the practice of pyramiding is a good first step; however, the FRB should consider additional provisions. North Carolina's law requires servicers to mail a notice to a borrower when they are assessing a fee. In addition, any fees must be charged within 45 days of the fee being incurred by the borrower or the fee is considered waived. These are simple requirements and the FRB should implement them as well. In addition, I think it is important to point out that giving borrowers a website to see the fees is only helpful for borrowers who have access to the internet and are comfortable navigating it. Websites with fee information will be useless for borrowers who do not use the internet, more specifically older borrowers, borrowers in rural areas without internet access, or low-income borrowers who may have limited access to the internet. Servicers should give borrowers the option to have a statement of fees mailed to them.

**2. Monthly Statements:** It appears that the FRB is not considering requiring servicers to mail monthly statements to borrowers. I would strongly urge the FRB to consider the benefits of requiring servicers to send a monthly statement to borrowers. Servicers should be required to mail a clear, easy-to-read monthly account statement to borrowers. This would likely eliminate other problems related to loan servicing. In this way, borrowers would understand how their payments are being applied and would also know if they are being charged fees by their servicer.

**3. Forced-Placed Insurance:** Consumer advocates and borrowers have raised numerous concerns about loan servicers force-placing insurance when borrowers already have insurance. The FRB should consider addressing this practice, for example, regulations could require loan servicers to make several attempts to ascertain that a borrower does not have insurance prior to force-placing it.

**4. Borrower education:** As part of my research, I examined how borrowers, servicers, attorneys, Superior Court Clerks (who administer foreclosures), and borrower counselors would find out about the provisions of North Carolina's new law. In speaking with stakeholders from all of these groups, it is clear to me that borrowers will likely be the last to hear about new laws or how their rights are impacted under the law. The FRB should consider how borrowers will find out about

any new provisions that are ultimately adopted. A loan officer I spoke with explained that servicers could be required to mail a notice to borrowers about their rights under legislation. This is one way to ensure that borrowers learn about their rights and that bad actors in the industry are prevented from engaging in these unethical (and often illegal) practices. I recently received a letter from my insurance company (Geico) asking for a copy of my driver's license because a law had changed in North Carolina and the company needed to ensure compliance under the law, so this is something that clearly can be done. I would also suggest that any notice to borrowers should be written by the FRB to ensure that the language is clear and easy for borrowers to understand.

Thank you for your consideration,

Sean Coffey

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